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Need for Harmonization of International Accounting Standards

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ABSTRACT

International harmonization of accounting standards is not a new initiative. The concept of convergence first arose in the late 1950s in response to post World War II economic integration and related increases in cross-border capital flows. Initial efforts focused on harmonization reducing differences among the accounting principles used around the world by developing a single set of high quality, international accounting standards that would be used around the world, to give it a professional shape and essence. Accountants all over the world feel the need to shorten the gap among different streams of accounting practices through harmonization. However, we have observed a couple of accounting diversity owing to information asymmetry and lack of uniformity, for example, the US GAAP. This diversity posed as threats towards harmonization of accounting practices. The profession however has also witnessed a greater achievement in recent years in the process of international harmonization of accounting standards. The IASC and its successor and the IFAC have played a significant role in this regard. In know distant time, we will observe that accounting world is controlled and guided by a single set of standards giving it a status of legal discipline in true sense. The study specific objective focuses on the international harmonization of accounting standards. In carrying out the study, a qualitative research method was adopted as the methodology. Hence, no data was collected and analyzed with statistical tools. The study concluded that harmonization of accounting standards all over the world is very vital and necessary as it helps to reduce or eliminate the differences in financial reporting. We recommended that the IFRS, IAS and other regulatory bodies should be more proactive in the discharge of their duties, as this will check negative manipulation of financial information by preparers for selfish gains.

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1. INTRODUCTION

Harmonization of accounting standards is necessary because financial reporting styles differ in different parts of the world. The goal is to easily understand the consistency and comparison of financial statements from different countries. Accounting standards are issued by the Nigerian Accounting Standards Board (NASB), now called the Financial Reporting Board of Nigeria (FRCN) or the International Accounting Standards Board (IASB), to issue professional statements from time to time on how accounting elements/items should to be treated in the financial statements. Each accounting standard is referred to as Statement of Accounting Standards (SAS), now International Financial Reporting Standards (IFRS) (Olanrewaju, 2012). Accounting standards can also be considered best practices issued by recognized accounting experts on various aspects of measurement, treatment, and disclosure of accounting events and transactions related to the codification of generally accepted accounting principles (GAAP). They are defined as standards of financial reporting principles and practices with codes or guidelines on how accounting items/items should be treated and presented in financial statements. The purpose is to determine the criteria for the presentation of general financial statements to ensure comparability with the previous financial statements of the company as well as with other companies and the uniformity of financial reporting. The objective is to provide useful information to various users of

financial statements such as investors, shareholders, government, lenders, creditors, suppliers and management. The process of harmonization gives the global community a unified entity. The convergence process has been recognized as a key factor in the implementation of a common set of accounting standards worldwide. A financial reporting system that conforms to global standards is a prerequisite to attract foreign as well as current and potential investors to the country, which should be achieved through convergence of accounting standards (Hati and Rakshit, 2002).

Harmonization simply means unity. Due to the existing diversity of accounting due to information asymmetry and non-uniformity of financial reporting styles across international borders. Accountants around the world feel the need to bridge the gap between different accounting practices through harmonization. However, we found some strong variations of accounting practices (such as US GAAP, UK GAAP, IAS, etc.) around the world that exist and are used simultaneously. These differences threatened the harmonization of accounting practices. The introduction of different accounting standards creates difficulties in the relative evaluation of the performance of companies. This phenomenon hinders the evaluation and thus the decision-making process. These mistakes can be the cause of business failure. Against this background, this study examines the need for harmonization of international accounting standards.

1.1. Objectives of the Study

The objective of this conceptual paper is to investigate international harmonization of accounting standards in relation to the need of harmonization of practices across the globe, identify the challenges and benefits of international harmonization of accounting standards and examine the process of convergence and the professional bodies that has played a significant role in the harmonization of accounting standards.

2. Literature Review

2.1. International Harmonization of Accounting Standards

International harmonization of accounting standards is not a new initiative. The concept of convergence first emerged in the late 1950s in response to post-World War II economic integration and the associated increase in cross-border capital flows. In the initial phase, harmonization was attempted, which reduces the differences in the calculation principles used in major capital markets worldwide. The International Accounting Standards Commission, established in 1973, was the first international standards body. It was reorganized in 2001 and became the International Accounting Standards Board (IASB), an independent setter of international standards. Since then, the use of the international standard has progressed rapidly. The FASB and IASB have been working together to improve convergence since 2002, US GAAP and China have also tried to approximate US GAAP and IFRS. Since 2009, Japan and China have been trying to harmonize their standards with IFRS (Olanrewaju, 2012).

It is argued that in order to fully realize the benefits of the global economy, the accounting policies of the countries should be harmonized. This harmonization of accounting standards helps the world economy in the following ways: facilitating international transactions and minimizing transaction costs by providing more complete information; standardization of information for global economic policy makers; reducing the cost of redrafting the financial statements of subsidiaries of multinational companies; improving government accountability and improving financial market information. Harmonization of accounting policies would help ensure equal opportunities worldwide. Regulators and auditors receive the same level of information, which facilitates the evaluation process. Investors and managers can make more valuable investment decisions. The world's resources are better managed and directed. The recent expansion of international capital markets and the availability of rapid global communication has placed a responsibility on accounting to provide useful and comparable information worldwide (Rivera, 1998). In this global business scenario, business people are in dire need of a common accounting language that they all speak around the world. A financial reporting system that conforms to global standards is a prerequisite to attract foreign as well as current and potential investors to the country, which should be achieved through convergence of accounting standards (Hati and Rakshit, 2002).

2.2. Definitions of Harmonization and Accounting Standards

Harmonization simply means unity. Due to the existing diversity of accounting due to information asymmetry and non-uniformity of financial reporting styles across international borders. The core of the harmonization of accounting standards is to break down the barriers of national differences, so that the accounting information compiled around the world is easily comparable, understandable and relevant for making financial decisions. Nobes and Parker (2008) explained that harmonization is the process of increasing the compatibility of accounting practices,

ie. the body sets limits for the variety between them. Therefore, the harmonization of accounting standards requires the development of accounting standards used worldwide to promote uniformity and high quality financial reporting. On the other hand, the accounting standards are the Nigerian Accounting Standards Board (NASB), now known as the Financial Reporting Council of Nigeria (FRCN), which sometimes issues professional statements on how accounting elements or items should be treated in financial statements. Each accounting standard is referred to as Statement of Accounting Standards (SAS), now International Financial Reporting Standards (FRS) (Olanrewaju, 2012). Accounting standards can also be considered best practices issued by recognized accounting bodies to codify generally accepted accounting principles (GAAP) related to the measurement and disclosure of accounting events and transactions.

2.3. The Challenges for Harmonization of Accounting Standards

International harmonization of accounting standards is not an easy task. There are challenges and obstacles in the water. For example, the reluctance of countries; Due to specific national differences, some countries may not want to lose their sovereignty by accepting compromises that require changing their accounting practices to those of other countries. In the example of the United States, the FASB and the IASB have been working together since 2002 to improve and harmonize generally accepted accounting principles (GAAP) in the United States and IFRS since 2009, Japan and China have also worked to harmonize their standards with IFRS. (Olanrewaju, 2012). It seems that the standards of the International Accounting Standards Committee (IASC) do not want to be adopted in the United States. This was a problem because the US is the biggest market and it is important that the IASC standards match the standards there. Again, accounting standards have been developed in different legal, economic, social and cultural environments. Hence the difference in accounting standards in different countries of the world. To achieve convergence, agreement must first be reached on the central purpose of financial reporting. IASB standards aim to meet the needs of investors and capital markets. The quality of financial reporting also depends on the quality of accounting standards and the efficiency of the process of implementing these standards. Adequate regulatory and other support is needed to ensure proper implementation of the standards. However, there is no international regulatory agency to ensure that countries follow the harmonization of accounting standards (Olanrewaju, 2012).

In addition, convergence of accounting standards with an international approach inevitably raises questions between rules and principles. IASB standards are based on principles. Consequently, those countries with rule-based standards have considerable difficulty harmonizing their standards with IFRS (Rivera, 1989). Another practical and important challenge that developing countries in particular face due to the adoption of IFRS is the chronic lack of accountants and auditors who are technically competent to adopt IFRS. Usually, the time gap between the date of decision and the actual implementation is long enough to train a good number of specialists who know how to implement international standards. Tax return is also an important factor. The taxation associated with the transition to IFRS, like other aspects of conversion, is complex. Amendments to IFRS require a detailed review of tax legislation and tax administration. The IFRS approach creates problems. How does the tax law address the treatment of tax liabilities arising from convergence, such as Nigerian GAAP to IFRS? If not taken care of, it would double the administrative work of the organization [(Obazee, 2011; Fowokan, 2011)].

2.4. Benefits of International Harmonization of Accounting Standards

The introduction of different accounting standards makes it difficult to compare the performance of companies. This phenomenon hinders the evaluation and thus the decision-making process. In the United States and around the world, the Enron and WorldCom cases have been cited as many precedents for creative accounting and fraudulent financial reporting that led to corporate failure. In November 2001, it was revealed that Enron's top executives had overstated their earnings by several hundred million dollars. After Enron's top management overestimated their earnings, they sold their shares before the company collapsed. Although questionable accounting practices do not violate IFRS, they are questionable ethical practices (Oyedokun, 2020).

Based on the above, it is clear that the main benefit of the international harmonization of accounting standards is a mechanism by which relevant financial statements prepared in various parts of the world are easily comparable, understandable and relevant for making financial decisions. They bring uniformity to financial reporting and ensure the consistency of information published by companies. Nangih (2017) argued that financial statements are guides that guide users to decision making. Such important reports, on which financial decisions are based, must be reliable, understandable, comparable, transparent and impartial. Another important benefit expected from the global harmonization of accounting standards is

related to the facilitation of cross-border mergers and acquisitions. It also improves the quality of financial reporting worldwide. Investors and managers can make more valuable decisions and the world's resources are better managed and allocated (Rivera, 1989).

2.5. Convergence process

International approximation of accounting standards is not a new initiative. The concept of convergence first emerged in the late 1950s in response to post-World War II economic integration and the associated increase in cross-border capital flows. The International Accounting Standards Committee (IASC) was established in 1973 and was the first set of international standards. The International Accounting Standards Board (IASB) was established in 2001 to develop and establish standards for the treatment of multiple items or items in the preparation and presentation of financial statements. The IASB adopted all 41 standards published by the IASC until 2001. Since then, the use of international standards has progressed rapidly (Olanrewaju, 2012). In 2009, the EU and more than 100 other countries require the use of International Financial Reporting Standards (IFRS) published by the IASB. The International Financial Reporting Standard (IFRS) was at the forefront of the harmonization of accounting standards with the introduction of IFRS. Another professional organization that has played an important role in the harmonization of accounting standards is the International Federation of Accountants (IFAC).

3. Conclusion

Because of the above, the harmonization of accounting standards around the world is very important and necessary, because it helps to reduce or eliminate differences in financial reporting. Harmonization of accounting practices and principles at the international level is stronger today than before. Even the IASC itself is working to eliminate unnecessary differences in accounting principles and practices around the world. Achieving individual accounting and reporting standards is the need of the hour. Many of the first hurdles in the process of harmonizing accounting principles and procedures between countries have already been reached. Convergence initiatives now work much more efficiently than ever before. Differences still exist, but they are diminishing. The pace of development of the convergence zone should accelerate even more in the coming years. The establishment of IFRS standards in the new regulatory framework is also a significant step forward in harmonization. IAS makes it possible to make some of the alternative practices eliminated in IFRS common to all, so that following the same standards cannot result in different practices. We hope that this process will finally set a new benchmark to achieve harmonization both nationally and internationally.

4. Recommendations

The following policy recommendations were made from this study.

1. International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and other regulatory bodies should be more active in fulfilling their obligations because this prevents negative manipulation of financial data for self-interest.
2. There is an urgent need to harmonize accounting standards worldwide. Therefore, countries that have not yet adopted IFRS as a basis for financial reporting should be encouraged, taking into account the significant benefits expected from the global convergence of accounting standards, such as the facilitation of cross-border mergers and acquisitions, which will improve the quality of accounting standards. Managers and investors can make more valuable decisions, and the world's resources are better managed and allocated.
3. Regulators should emphasize the implementation of accounting standards.

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